



THE DAMONE GROUP

September 11, 2007

Ms. Mary Levine, Acting Director of Legal Affairs  
Michigan State Housing Development Authority  
735 E. Michigan Ave.  
Lansing MI 48909

Re: Draft 2008-2009 Qualified Allocation Plan

Dear Ms. Levine:

I am one of the principals of The Damone Group. Our company has operated as a real estate development, construction and property management firm in Michigan for over 30 years. Since 2001, we have developed and built more than 600 units of affordable housing at a total development cost of over \$60 million using various low-income housing tax credit programs. During this time, we have always taken great pride in our mission and in our ability to partner with MSHDA to meet the housing needs of Michigan's low-income households.

It is in this context that I am writing to express my deep concern that some of the proposed provisions in the draft 2008-2009 Qualified Allocation Plan (QAP) released by the Michigan State Housing Development Authority (MSHDA) will negatively impact the ability of qualified "affordable" housing developers to meet the housing needs of the most needy segment of Michigan citizens.

We fully support some of the changes to the 2008-2009 draft QAP such as the elimination of the lottery process; however, based on my experience in the industry, the following outline summarizes some of my concerns regarding the draft QAP:

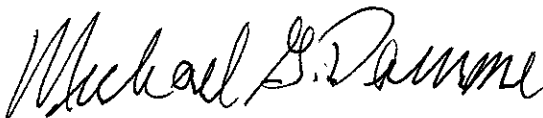
- The elimination of a preservation holdback will negatively impact the number of applicants attempting to retain existing but aging affordable housing properties that are in need of renovation. As a result Michigan is placing at risk the loss of thousands of units to the conventional market along with valuable Section 8 federal subsidies that will be re-allocated to other states if they cannot be used in Michigan. The resulting loss of existing housing stock is contrary to a HUD policy initiative that is focused on preserving existing affordable dwelling units. I would also call your attention to the fact that a majority if not all other states have recognized the need for preservation by continuing a policy of setting aside a specific allocation of tax credits for preservation projects.
- The requirement to use federal prevailing wage guidelines for the construction of all tax credit projects is counter productive as it will add from 10% to 15% to the cost of construction. This increased cost will obviously decrease the number of affordable units that can be produced given the finite nature of available tax credit financing resources. It is ironic that the negative impact of the reduced pool of affordable housing will fall most heavily on the poor.

- The requirement that all tax credit development must maintain 10% of all units for tenants with special needs or households at 30% or less AMI will reduce the ability of developers to produce financially feasible projects. The National Association of Homebuilders completed a recent study concluding that targeted rental units like those mandated by the draft QAP are not financially feasible without deep rent subsidies yet there is no evidence that new state or federal funding sources are available to address this shortfall.
- We also recognize that MSHDA's role as the allocating agency carries with it the responsibility to develop a consensus within the affordable housing community regarding the most efficient use of housing tax credits that is consistent with Michigan and Federal law. For example, the state enabling legislation has numerous references to "low and moderate income" families and their housing needs and several references to "elderly or disabled" people and their housing needs. By including references to "homeless people or supportive services" in the draft QAP, MSHDA is ignoring the law and attempting to use the tax credit program as a means to solve social problems and not housing shortages. Even though addressing these problems is a noble objective, they should be dealt with via other resources.

In summary, we believe that the currently drafted QAP is a divisive, unworkable plan that should be rejected by the MSHDA Board and not approved by the Governor without substantial revisions. We urge MSHDA to incorporate into the final QAP all of the concerns addressed by the Michigan Housing Council. Additionally, until a consensus agreement on the proposed QAP can be reached, MSHDA should not delay scheduling an October tax credit round using the current QAP. To do otherwise would delay the production of affordable housing in Michigan which by some estimates would generate as much as \$400,000,000 of gross business activity that is sorely needed to help boost the Michigan economy.

Sincerely,

**THE DAMONE GROUP**



Michael G. Damone  
Principal

CC: Honorable Jennifer M. Granholm  
Bernie Gliberman, Chairman, MSHDA Board  
Senator John Pappageorge  
Representative Marty Knollenberg

